The rise of US dollar imperialism, and why it failed - with Radhika Desai & Michael Hudson

Geopolitical Economy Report

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Economists Radhika Desai and Michael Hudson explain the end of the British empire's sterling area with the rise of the US dollar system, its central role in imperialism, and why it ultimately failed to accomplish Washington's hegemonic goals.

hello everyone welcome to the first fourth geopolitical economy hour our fortnightly show on the politic political and geopolitical economy of our times I am radhika Desai and I'm Michael Hudson um today we are continuing our discussion of de-dolarization as many of you know we have structured our discussion around some 10 questions and uh last time we dealt with the first five what is money and and what is the relation between money and debt is money a commodity what is the theory that serves the dollar of how the

dollar serves as World money and then because this Theory so much relies on the Sterling system we discussed the Sterling system what is it what was its real basis not gold but actually Empire Etc and then we decided that in this show we will discuss the next file which is how did the Sterling system end what really happened between the world war something on which Michael has written an enormous amount and he knows a great deal uh then we will discuss the dollar system between 1945 and 1971 which is the year

when the Dollar's gold ring was broken how did the dollar system actually function during this time because we are always told that this was the time when everything was hunky-dory the dollar system was fine until 1971 but the reality is quite different and then we are told that after the dollars gold link was broken uh although you know this may you know that this was not somehow some kind of a great disaster on the contrary the United States kind of put a fast one on the rest of the world and managed to get the

dollar to function as the world's money without the burden of linking it to gold is that really the case what is really what really went on and then we'll finally come to the crisis of today what are the main Dimensions what are the forms that the

dollarization takes Etc um I should say Michael and I were discussing exactly how we are going to um it you know exactly how far we are going to get today since we have an hour and we have a lot to discuss and we thought that probably it's possible that we go through all of this but it's

quite possible that we will get to question three or question four and we'll have to leave the rest for uh the next show so with having said that let me dive straight into the question of how the Sterling system ended so as we discussed last time the Sterling system was naturalized and portrayed as if it could have lasted forever uh so just basically making the world believe that it is Perfectly Natural and okay for the currency of one country to serve as the world's money uh and of course it's it's it's functioning was attributed to Gold

uh and we saw last time and that this was not so and it's important to clarify this because people still hanker after a gold standard and in reality you have to understand that while gold was the the sort of the The Benchmark of the value of um of Sterling it was not what made the system tick what made the system tick were the surpluses as I showed in the map that I showed last time essentially the fact that Britain had a large empire meant that um surpluses as you see in the map surpluses flowed from the uh Britain Britain's non-

setler colonies principally British India but also some other uh countries um so so these surpluses flowed from a Britain's colonies as you see in the blue arrows all they float towards Britain uh and these flows were based on Britain essentially charging these colonies for the you know for the privilege of being ruled by Britain um uh Britain appropriating the goal that foreign exchange value of the uh a huge um uh surpluses the export surpluses that these colonies ran uh for the rest of the world and so on so these

surpluses were centered in Britain and then they were recycled into the famous Capital exports which essentially Finance the industrialization of Europe at this time of North America of southern Africa and also of course the antipodes the the Australia and New Zealand so essentially this is where the distinction between the second and non-setler colonies becomes very important we also pointed out that um in this you know even though Britain sat on top of the largest Empire the world had ever known the fact of the matter

was that this was also a period during which other countries were emerging to challenge Britain's power Germany linked its currency to Gold not in order to subordinate itself to some sort of gold standard but rather to make its own

currency attractive to the rest of the world in order that it may increase the market for German goods and and increase generally speaking Germany's power over the uh large parts of the world the United States also it waited until 1913 but finally it got around to creating the Federal Reserve

System and this was another way of essentially asserting its own uh uh uh priorities and so on so in this context as Marcelo de cecco uh whose famous book money and Empire is really worth a read as they check her pointed out it's very important for us not to take what he call a regardian interpretation of the Sterling system but to take a listian one he's referring of course to David Ricardo the famous 19th century political Economist who all who was a great partisan of free trade and the idea that the world economy was simply a

homogeneous whole United by markets and so on and he's referring to Friedrich list who won the contrary and Michael and I would agree much more with lists on the contrary portrayed the world order as a world order composed of national economies and and these National economies were often in con competition struggle and conflict with one another and in this context the industrialization of other major powers to challenge Britain's industrial dominance was bound to destabilize the Sterling system and indeed did um

and of course it also relied uh on the I on the fact that Britain's uh industrial uh uh classes industrial capitalist classes would accept a regime that was actually quite harmful to their interests and there was quite a lot of disturbance on that front as well where they were basically questioning the priorities of the city of London and the workings of the gold uh Sterling system and finally it rested on working-class acquiescence the idea that Britain could periodically inflict upon its own economy uh severe recessions in order to

maintain the value of sterling and severe recessions meant of course heavy unemployment and working-class people were getting more and more organized and opposing so for all of these reasons the Sterling system was actually weakening uh throughout uh in the period up to the the uh the the uh 1914 outbreak of the first world war and one we should add here that while this did really got going only after the first world war there was also the beginnings of nationalist restiveness in the colonies which were also threaten to take

away the basis of the Sterling system so all of this was happening and after the first world war of course the British Empire was drastically weakened and a return a stable return to the gold standard on the part of Sterling was simply not

possible so this is the story of how the Sterling system ended and after the Sterling system ended and uh during and after the first world war there were a number of really important shenanigans on the part of the United States in particular Visa V written that uh that Michael will now talk

about because really our second question is exactly what happened between the world was it Michael also please feel free to add anything else about the end of the Sterling system that you would like to well most of our discussion from here on in is going to be about uh intergovernmental finance and uh what world war one did was uh for the first time uh it changed the whole rules of how uh allies and other countries uh settled all of the balances and the mutual Aid that had built up during the war after earlier Wars like the

Napoleonic Wars well was normal for allies to say well okay we'll forgive the debts we're all fighting the same fight uh we'll start again uh and uh after even if you're uh enemies uh in the franco-prussian War uh France owed uh Germany uh some reparations but uh France simply went to the uh private Banks borrowed the money uh and uh paid Germany so uh every the whole uh connections between the World Monetary systems were basically private sector Finance uh all this changed when the United States said well uh

during the war of course we're not going to charge you for uh the tanks and all the aid we give you gave you uh during the war but we didn't enter the war uh when uh you know British did and French did uh so we're going to charge you're still going to have to pay us all the debts that you ran out when we were a neutral country before we end uh entered the war these debts are are enormous and uh the Allies didn't know what to do they didn't want to be impolite to the United States so they said all right we're going to uh

make uh Germany the loser pay reparations that will enable us to pay you the inter Allied debts so uh the allies with American uh uh agreement said German Germany has to pay the Allies enough so they can pay the money that we've charged them for the debts that they didn't expect to have to pay uh after World War One well the result was uh very rapidly a a crisis the Germany was stripped of its uh steel making regions it was stripped of its assets uh it was left almost unable to pay but burdened with enormous reparations that

uh it couldn't possibly pay and the result was uh uh a collapse uh Germany uh tried to pay by had uh simply um throwing Mark its currency Mark onto the Foreign Exchange Market and uh the foreign exchange rate would uh would

plunge when a foreign exchange rate goes down just as uh what happened in the third world and uh after World War II uh the price of imports go up if the price of everything Germany needed oil steel Machinery was all denominated in dollars so the price of imports went up and as a result uh the

when the German Reich spunk had to create more money uh to finance the transactions of people and businesses at the higher prices now this is the exact opposite of what you're told by today's monetary theorists today's monetary theorists say well governments run a deficit and that puts money into the economy and that uh causes the trade deficit and that uh leads to uh foreign foreign borrowing just the reverse Germany only created money at home because it's International uh currency was falling so

immediately for the balance of the 20s after 1921 there was a huge uh debate over should Germany have to pay reparations and should the Ally guys have to pay International debts now this argument is very important because the arguments put forth in the 1920s were the identical arguments that the IMF would put forth after World War II and the 1920s uh bankruptcy of Europe was a dress rehearsal for how the IMF has bankrupted uh third world countries in the global South countries uh the art and there were two sides to

the argument as I've discussed in my book trade development and foreign debt uh I go over uh these arguments uh on the one hand you had uh the people who not only hate Germany but even more than the hated Germany they hated Labor uh bertel Olin uh in the United States in Jacques roof in France said that any country could pay any amount of foreign debt simply by taxing the country domestically and lowering the price of uh labor lowering the wage Pages you could squeeze enough out if you just squeezed a labor

enough and uh that that would somehow uh create uh whatever you uh took away from the domestic economy and Marx could be paid right over to the Allies uh well Keynes and uh in the American uh economy Harold Mountain said uh this is nonsense solving the budgetary problem uh raising a budget surplus does not help the transfer problem uh Germany was able to tax its uh labor and its industry in uh Marx but how did it pay in dollars uh it can't tax them in dollars because Germany used the uh uh the mark

system and uh the question is how on Earth can Germany translate this of economic surplus that it squeezes out of Labor and Industry to pay foreign countries well that's exactly the same problem that has occurred would occur in

Argentina after uh in other countries after World War II and uh Keynes pointed out uh very saying well the country is going to have to export but that means that the only way that Germany can uh pay is by uh having other countries buy its exports but as soon as the German Mark began to go down as it

tried to pay its foreign debt and foreign debt is the main factor that's pushed down uh third world uh uh uh exchange rates in the 1960s 70s and 80s is this happened uh America immediately raised its tariffs uh and it passed the law in 1921 against countries uh selling and depreciated currencies so the United States said well Germany has to pay uh the Allies to pay us but we're not going to buy German exports uh to provide the dollars we're not going to give the rest of the world dollars at all uh it'll have to pay it as in dollars without

any way of earning them well obviously this uh wouldn't work well the question is what did happen uh uh in practice the United States uh said well uh there we'll settle up the old-fashioned way uh by uh having the private sector balance Matters by uh lowering by having the Federal Reserve lower interest rates in the 1920s just like today's quantitative easing the low interest rates would make it profitable for American investors to buy the bonds of uh German municipalities so uh and to buy uh German companies so the

Americans would uh investors would buy German municipal bonds and lend to uh German companies or buy German companies uh Germany would take these dollars and pay the allies the Allies would pay the United States and there'd be a circular flow and everything would balance well uh meanwhile uh England still had problems paying the United States so uh and England uh the bank of England came to the United States and said well you've got to keep your interest rates really low so that uh people will lend to England

too because uh we need uh to get money so we won't be stripped so the United States flooded the Federal Reserve flooded the economy with money and a lot of this money was used for the stock market boom and the stock market boom of the uh that finally collapsed in 1929 because it was all funded on credit people were using this credit to buy stocks on margin and just as uh uh in subsequent uh Financial bubbles uh they're created by borrowing money to buy stocks on margin and uh they're all uh basically debt Finance

Bubbles and and that's what happened finally there was a collapse in 1929 countries moved into depression uh 1929 1930 finally in 1931 all the governments got together and declared a moratorium on a foreign debt uh on

inter Allied debt on German reparations uh they declared a moratorium the United States well we won't ask for money now but we may ask for uh European money later once if Europe ever gets prosperous we're going to ask for the money and we're still going to make it pay but for the time being you know we

understand we forced you into depression uh Roosevelt came to a office and he immediately devalued the dollar rebound and blocked gold sales and said well we're not going to uh uh be tied by uh gold anymore we're going to uh basically uh nationalize uh the uh the Gold stock and uh Keynes wrote uh in England Roosevelt is magnificently right of course you don't want gold to limit what any country does so America and the rest of the world Broke Free they still didn't recover from the recession uh the depression uh until

uh World War II and uh World War II of course uh changed matters and I think radica has a few things to say about that yeah no thanks Michael that's really excellent so and I just wanted to as you were speaking I remembered a few things that I felt I should really add to what he was saying so first of all I just wanted to say that uh in your super imperialism you make a really important point which really is worth quoting so that's what I'm gonna do because uh what Michael was discussing about the US's refusal to um essentially

agree that the aid that it had given to the allies during the first world war should just be treated as a grant and the U.S should not demand repayments and the way in which they set off the financial Merry-Go-Round of uh then the French and the British then demanding reparations from Germany and then the whole the U.S supply so essentially what it did is that uh the Germany had to pay reparations to Britain Britain and France had to pay that repayments to the United States in the United States having made it next to

impossible for Germany to earn much through exports then essentially actually Force the private sector to lend to German municipality so there was this financial merry Goran which eventually collapsed as Michael says with the first uh with within 1929 crash um but in the beginning of this Michael says in in super imperialism he says it would be false to say that the United States provoked World War II it is true however that no act by whatever Nation contributed more to the Genesis of World War II than the

Intolerable and insupportable burden which the United States deliberately imposed on its allies of World War One and threw them on Germany so I think this is a really valuable important point and it also will connect up with the other

points we'll be making about essentially how the United States has over the last century and a half probably essentially or certainly over the last century mastered the technique of profiting from Wars that it often it can instigate or otherwise encourage thousands of miles away and I think this has

been very important so so so so uh and and uh also uh Michael you said that uh the United States was keeping rates low in order to essentially Force the private sector to finance uh uh you know to to essentially lend money to Germany but it was also the case that the uh the U.S at this time although it really wanted to to have uh it really wanted to um uh make the dollar the world's money because Sterling was now no longer capable of doing so it found that it could not do so quite so easily and for a time it was counted on seeing

some sort of dollar Sterling condominium so to speak a joint dollar Sterling system and in the interest of pursuing this the US was also keeping interest rates low during the night during the early and mid 1920s in order to uh and to essentially encourage Britain to go back on the back onto gold after the interval of the first world war and finally a really important point which is very critically important partly because there are so many people that think that somehow a gold standard would solve everything it's important to

remember that gold standard has typically been quite deflationary because essentially you know as we said early on capitalism and money have a sort of strange sort of relationship because Capital can only be accumulated in money and therefore capitalists want money to retain its value so what capitalists need from money in order to retain its value is to restrict it's Supply because only that is the only way capitalist States know how to make the make money retain its value but at the same time in order for money to facilitate the

expansion of capitalism in order to facilitate ever wider accumulation you need money to be in good Supply so that deflationary monetary order is a bad thing so capitalists essentially are are are I want to have their cake and eat it too and they can't have both at the same time so they're always in this uh problem and gold has typically been deflationary because it is an artificial way of restricting the value of money um sorry restricting the supply of money in order that money will retain its value uh because it does not have any

rational way of deciding on investment priorities and so on so it can only do it in in this fashion now yes I I do have uh some other things to say which are relevant to this second question of today which is um uh you know what

happened in the interwar period so the final thing you know in addition to what Michael is saying the final thing that happened is Keynes is Bretton Woods proposals that is to say um Keynes uh in order to um in in order to um well in the into war period the whole there was a Great Depression

International a trade and payment systems had collapsed there was a lot of uncertainty valencies were very volatile against one another and this was not making recovery any easier so uh there was a a big conference towards as as it became clear that the Allies were going to win the war especially after 1943 and stalinrad it became clear that the war would be won by the Allies it was only a question of time so then post-war planning planning for the post-work period began in Earnest and a large part of this planning took place at

the New Hampshire resort called Breton woods and out of that have come the post-second world war systems of international economic International governance which include the United Nations it includes the uh World Bank the international monetary fund and given that the effort to try to create a International Trade Organization failed they had to accept the stop Gap Arrangement that was the General agreement or tariffs and trade which in the 19 after 1995 became the World Trade Organization so in order to understand

uh so so it is very important from our point of view to understand the proposals Keynes made at Bretton Woods so you see here in this diagram basically Keynes arrived at Bretton Woods as the head of the British delegation Britain between the two Wars had experienced what can only be called the steepest decline in the power and status of a better country has ever known because in 1914 Britain sat on top of the biggest empire the world had ever known uh and the biggest predator to the world and in the course of the next 30

odd years Britain declined from these positions uh it's in the industry was increasingly uncompetitive it's a financial hold on the world and military hold on the world has declined its colonies were getting rested when decolonization was impending so Keynes arrived at Breton woods with a set of proposals that would make it possible for a much weakened country like Britain to still Thrive and pursue policies that were beneficial to British people and the British economy and he was very aware that and he knew by the way as

I said last time he knew better than practically anyone how the gold Sterling system worked because his first book Indian currency and finance had been about nothing but that so he knew that those arrangements the time in which

those arrangements could have worked was passed and new Arrangements were needed he was very aware also that Britain Not only was Britain no longer so the head honcho in the in the world system but that there was now a greater dispersion of productive power and financial power around the

world so he came to Bretton Woods with an original set of proposals and I underlined original because over the course of many much negotiation they tended to be whittled down and many people think that the post-war system that we got in the end was a result of Cain's proposals but in fact it was the result of keynes's eventual defeat but the reason it's very important to understand what he proposed is that it gives us a uh the the framework of thinking which allows us to see what's wrong with the post-war system so basically he

proposed that there should be a a multilaterally created new currency he said for want of a better name I'm going to call it Bangor so that's what you see at the bottom of the screen there uh with the with the Green Dot and the value of Bangkok Kane said would rely on that of 30 Commodities 30 of the most heavily traded primary Commodities remember last time we discussed that primary Commodities are critically important because primary Commodities go into the production of everything else so whether it is oil or

iron ore or copper or what have you eat Etc these primary Commodities go into the production of everything else every economy needs these and therefore the prices of these are critically important for any economy so it will be based not on gold gold was one of the 30 Commodities but on these 30 primary Commodities Bangkok would be issued by a organization which you see in the center there called the international clearing Union and Banco would not be used by as domestic currency you and I wouldn't use

it to buy a restaurant meal or a bar of chocolate we would only central banks could use it for in order to settle imbalances so we say between two countries if one country exported fifty dollars worth of goods to another country and that country exported 70 dollars worth of goods to the first country then the imbalance is is not 50 plus 70 which is 130 the imbalance is only 20. and that's what those were the imbalances that that panko would be used to settle and the other important thing about Bangkok is that countries could buy

Banco but they could not sell Bangkok so they would need to buy bank or in order to settle their imbalances but once having done so they could not sell it and uh so so that meant that um the idea was that countries were were to be

discouraged from accumulating too much Bangkok and the way they could they they could use it to buy other things and and to settle uh their their um uh accounts with each other their imbalances with each other but they could not use it say to make an investment in a foreign country or or what have

you so they could buy Bangkok but they could not sell Bangkok um all of this there were a couple of other important things that uh a couple of other things that are important about this number one this system would only function in a system of capital controls the idea was that you cannot manage your economy uh for example for full employment for high levels of activity Etc unless you were able to control the influent outflow of funds and this is very important because you know in more recent times particularly after the

1980s and 90s when so many countries lifted Capital controls we have been asked to become used to the idea that not having Capital controls having free Capital flows is totally natural and desirable but this is actually not the case we are told that for example there is a so-called um uh uh the Holy Trinity that is to say you can have a stable currency a a um uh uh you know yeah you could have stable currency you can have a a you know independent monetary policy and uh is um and free Capital flows you can have all of

these you can't have all three things at the same time you have to choose one of them and most people say you have to you know essentially choose either one or the other but keep free Capital flows open in reality that is the thing that can most easily go because all countries need a stable currency and an independent foreign policy so it's very important to know that Capital controls are very critically important and also countries keep countries uh lift Capital controls not because it's beneficial for you or me and Ordinary

People they lift Capital control so that rich people can easily take money into and out of economies and it is entirely so that they can take their money wherever they want they can escape taxes they can look for more lucrative opportunities but it does not help us and the final element that gains proposed in his bretonwood system was creditor adjustment that is to say that if you have a trade imbalance you know there is a some countries have around persistent trade surpluses in other countries have persistent trade deficit um and

similarly also some countries are exporting Capital other countries are importing Capital deficit and capital all these sorts of balances would be settled not just by imposing adjustment that is to say a imposing adjustment on the weaker part on

the trade deficit countries and the capital deficit countries uh that is to say to make them tighten their belts and to make them export more and so on creditor the stronger part of the Creditor adjustment was also critically important that is to say that if you are exporting too much uh of

either Goods or Capital you will have to reduce your export Surplus either by importing more or exporting less take your choice this was regarded by uh Keynes as important that he actually made it a part of the structure of the system by essentially pointing out since you could not sell back and foreign what was the point of accumulating something that you could only use to settle imbalances so that was the main thing and secondly you could not accumulate Banco Beyond a certain point if you did then it would essentially

be hived off to finance development in various parts of the world that needed it so this was the structure of the system that Keynes brought to Bretton Woods and it was um it was Nix essentially by the United States who would not accept that any other such multilateral currency could be the world's uh money because it wanted the dollar to be the worst money I've spoken a lot so I perhaps should give Michael a chance to come in and add anything he wants on this matter well what I want to add is the reason that Keynes made

uh these proposals what was he trying to uh avoid well he was trying to avoid the fact that uh England was broken was broke uh and uh in order to understand it you have to understand how America's strategy throughout World War II was to look at England as uh its main potential post-war rival in 1942 when the Allies won their first major victory uh in at llma Maine Churchill uh gave his famous speech saying this is not the beginning of the end but the end of the beginning but just what was that beginning well the

beginning was really shaped in Lend Lease uh when America joined the War uh it uh had a discussion how are we going to supply uh the Allies uh with uh armaments uh we can't uh have enter enter Allied debts like they were before uh we're going to have to negotiate uh some means of payment and uh England can't pay money right now but what it can pay is giving up its Empire it can end the Sterling area it can enable it can agree to become a satellite of the United States uh and essentially uh it can uh Force itself into a depression

and bankruptcy after World War II as the price of our giving it support uh well that basically was Lend Lease uh redika reminded me yesterday that uh the Wikipedia uh uh issue uh the Wikipedia article on lemblies says the aid was

given for free on the basis that such help was essential for the defense of the United States well if you look at the uh my super imperialism uh has a whole chapter on blendlease describing uh the negotiations that occurred uh back and forth and uh what the United States Congress

insisted was uh the price of of Lend Lease there were a number of prices the first was that uh when uh there was going to be peace England would give up its system of Imperial preference that was uh what radica was discussing before is uh what how did England create an empire of uh dependent uh colonies uh Imperial preference meant that uh England would give trade uh uh favoritism tariff favoritism to members of towards colonies to members of its Empire uh and uh this was very important because during World War

II uh uh India Egypt uh Argentina uh and uh other raw material suppliers built up enormous uh savings uh of uh uh income that they got they sold their grain uh mining uh materials uh all sorts of things to the allies and uh the Allies uh paid them and uh they they built up enormous uh International balances uh British colonies had 10 billion dollars of uh balances they'd saved during the war and uh Not only was there Imperial preference but these balances were blocked uh England's Colony said you can use these Sterling

area balances to pay other Sterling area countries namely Us in England and the whole idea was that now uh England's Hope was that after World War II all these balances that its colonies had built up in other countries would be spent on its exports and that would enable it to have full employment instead of the mass unemployment that led to the general strike of 1950 uh the the general strike so uh the United States uh basically uh this was the beginning of America's rules-based order the rules based order means it's a

double standard we have one set free rules one set for others England had to agree to abolish the Imperial uh uh preference system uh and uh let countries uh spend their uh 10 billion uh dollars anywhere meaning on the United States as well but the United States did not promise to lower its tariffs and enable these countries to earn money from the United States only England uh was supposed to do this well uh you all remember what Henry Kissinger said that it's dangerous to be an enemy of the United States but it's fatal to

be an ally uh England was an ally and it suffered a fatality uh so that you could say that Lend Lease was America's victory over the Allies even while World War II was going on uh and principally against England uh because England was

viewed uh almost with as much uh worry as America was worried about socialism uh just as a socialists economies uh had uh their uh Capital controls and their price subsidy so England seemed to America to be a planned economy to the extent that it wanted its own economy to grow its own

labor force to be employed instead of the American labor force so Britain had to agree to a free market that ended Empire preference and uh it also had to agree not to devalue Sterling to be make its exports more uh important England uh when uh lendalese gave way to as soon as the war ended within a week uh and it happened very quickly because of the atom bomb uh uh on Japan England had hoped that the war would last a year longer so that it would have a chance to uh uh settle things uh uh more in its favor but all of a

sudden it was broke it needed money and America said well of course now there's not a war anymore we don't have to give you any support uh but we will give you a loan but you have to agree not to devalue Sterling until May 1949 you have to hold Sterling at such a high price that uh there nobody can afford to buy your exports and have said there's one great advantage that we know Mr Churchill will love without experts you'll have mass unemployment without mass unemployment you'll have low wage rates you'll win

the war against labor and will win the war against you that was basically the uh deal that was made and uh basically uh it was foreign policy agencies the United States if you look at the debates during Lend Lease in the British loan uh in Congress a congress said well you know they say that they need money and but if they really need money they have plenty of assets let them sell Shell Oil to the United States let uh the atmosphere and Mrs Astor put their uh well up on the Block they have plenty of things they can give us uh

in other words they treated the United they traded Britain uh as a dress rehearsal for how the international monetary fund was going to treat third world countries after the 1950s you you have to pay a foreign creditor sell off all of your assets sell off your public domain your Mining rights your uh public infrastructure that basically is what other United States uh insisted on uh that Britain do and by agreeing to all of this uh economic surrender uh uh America then went to the rest of Europe and said well we've got

Britain to agree with this uh this is a Theta comp play either you join us or you don't either you're with us or without you didn't need George W bush to say that that was the policy that America uh went to uh Europe and uh England had oh

has always ever since acted as America's proxy as a America's veteran Ram it will sell out and then uh give a model for uh America to impose on other countries so essentially the IMF uh when it was being structured was to enforce the system well what Kane said the reason that he put forth this

idea uh of uh the bancor that radical described as he said creditor countries have a moral obligation that we want to make into a legal obligation to enable the debtors to pay them you can't say you're a creditor making a loan if you prevent the countries from paying the loan and so uh Kane said the the key element in his proposal for the international monetary fund was the scarce currency Clause that our countries would uh uh borrow uh this uh uh special uh I IMF currency the bank or they would accumulate it but if a country

would run a sustained payment Surplus for more than seven years and we know what country he meant the United States then the the Surplus would be wiped out because it was so large that it would be uh unpayable well this logic is exactly the logic that Keynes applied in the uh reparations debate in the 1920s when he said look what happened when reparations couldn't be paid finally the world saw reality and they canceled the reparation deaths in their Ally debts my system of the bank ordered designed to uh write that into law

that if a country like the United States he didn't mention any country uh is going to be a chronic Surplus country and other countries will be chronic debtors at a certain point this imbalance will be wiped out that's the way that we're going to uh create Market balance we will create a Marketplace that uh has the rules to prevent uh the market from uh transferring all the wealth of the world into the Creditor countries and bankrupting uh debtor countries enforcing depression on them well the United States said that that's what

we want we want the IMF to enforce depression on the rest of the world because then we can ask Argentina and Shelley and Latin America and Asia to do just what England did you owe us the money sell off your public infrastructure sell off your oil rights sell off your mineral rights uh and essentially if you look at the debate they're uh over Camden proposals and what the Britain uh politicians in the House of Lords uh wrote you see this all Spilled Out The House of Lords warned that this would happen The Advocates uh

fighting against uh workers the main anti-anti worker party was of course the labor party uh and the labor party uh said we've got to agree with the Americans even though it'll be mass unemployment well they're Americans uh the

conservatives fought against bankrupting labor the labor party even before Tony Blair uh advocated uh fighting against Kansas proposals uh and uh wanted just abject surrender to the United States and uh basically that's what happened uh the the task of the IMF turned out to be a replay of the Lend Lease

agreements and the British loan of 1945 is to lend to the Third World Export countries uh as prime directive uh was to promote uh uh dependence there but uh I'll get to uh the 1950s after uh radica makes the transition from uh what Kane did to uh uh what happened in the after World War II yeah thanks Michael I mean again really very interesting and it just makes me think of several things that I thought I should really mention here um you know not only is the Wikipedia entry wrong that somehow this lendlies was

essentially free Aid as you point out the big price that had to be paid was essentially this surrender of national sovereignty essentially the surrender of you know essentially agreeing to do what the United States wanted you to do on important policy issues but there's also something further actually countries like the United like the UK were actually very aware of exactly what the US was doing and that the end game that the US was looking for was essentially to be sitting on to be a creditor which could then dictate if not

repayment then then essentially dictate policies and in order to avoid being in that situation for a large part of the Lend Lease Britain actually essentially tried to sell assets as much as possible whatever it could in order to pay for it anyway so actually it was no it was both monetarily paid for in bulk of the instances and it was also paid for in terms of surrendering policy and very critical policy I mean you know if you could buy policies like these they are cheap actually so in that sense that there was that and and secondly uh

there's also this you know this discussion is very important from the point of view of today because as some of you may know the idea of Len leaves has been dusted off and put into practice once again vis-a-vis Ukraine um and we'll probably be discussing this uh in a later show which because we intend to do one on the political economy of the and geopolitical economy of the Ukraine War uh but uh it's important to say that again most people think that the aid that's being given to Ukraine and the langleys and and so on is free

it isn't the United States is running a tab at the end of this war whenever that may be Ukraine or whatever entity that is the successor to Ukraine because it will be as likely as not a much diminished entity will be saddled with a big Bill

and if it can't pay all the better because then the United States will be able to dictate policy so one way or the other the people who claim that we are standing up for Ukraine are going to be not only are they destroying Ukraine right now but they're going to be squeezing it further um I should also add

one other thing the United States because it it's essentially demanded that the um that the UK not the value for a period of time until 1949 Etc also ended up it did that and it also ended up enlisting the colonies of Britain in its own favor because essentially the colonies didn't want to purchase things with overvalued Sterling and they said why can't we use our Sterling balances because they are our Sterling balances remember this is also the time when these colonies are becoming one by one independent and they say well

why can't we use this to buy American Goods because of course at that time with much of the productive capacity of the world destroyed around the world the United States was the only major economy left standing and only major economy capable of exporting the things that um that the colonies might want and then finally you know you know Michael has pointed out this whole point about austerity this whole point about how essentially uh exclusively better adjustment which is the opposite of what Keynes wanted

Keynes wanted creditor adjustment to have exclusively better adjustment means you are making the weaker party even further weaker by making them tightening their belt were advertising their bill by making them consume less by imposing recessions on them Etc and in this point of view from this point of view again let's remember that this is not the only way to pay off your debt there are actually two very different ways of paying off debt and I think it's important to remember them as we try to assess these Arrangements one is

yes you restrict your consumption you say okay if I owe you a x amount of dollars I was going to restrict my consumption I'm not gonna not eat I'm gonna not eat my house and I'm gonna repay the debt but the other way and of course you know some people can do so with minor difficulty for others it will be too great a difficulty and for societies it is you know creating generalized misery you know by paying debts these ways and also inflicting misery on those least able to Bear it like working people the poor Etc but

there is another way of paying that which is to increase your capacity to pay to you know uh so you invest in that Society D and its productive capacity or if you are talking about an individual you say okay I will I want to take further deck for

now I'm going to train myself as this or that increase my capacity to earn and then I will pay off the debt this is a very different way and Keynes wanted to Institute this way of repaying debt in his ideas about an international clearing Union and the dollar and so on so that it does not inflict

such misery but the United States wanted the opposite and so now let us come to uh slowly to to the third question about the dollar system between 1945 and 71 uh which is when the Dollar's gold link was broken how exactly did it work so essentially uh before we get there it's important to remember a couple of things one of them is as I discussed in my geopolitical economy the United States could see that um the dollar the Sterling system was weakening already in the early part of the 20th century and throughout out the period

that we have just been talking about the two World Wars The Great Depression Etc the United States basically calculated its policy actions in a way as to try to realize the possibility that the dollar would replace Sterling as the world's money essentially the United States saw itself as um uh as the country that would replace the United Kingdom of course the U.S knew that it was never going to be able to acquire an Empire the size that Britain had but it would essentially try to say forget about that but we will try to make

the dollar the world's currency the problem with this was of course that the Sterling system relied on Empire if you don't have Empire you were going to have a pretty tough time you're going to have to engage in some pretty uh Shady Shenanigans in order to make the doll of the world's money but this this desire on the part of the US has been there all along the United States has always been an expansionary society and if you read critical history orients and writers of the United on the U.S like Charles and Mary beard or more

recently William Appleman Williams or Andrew basevich and so on all of these people emphasize that the United States was always expansionary it Justified that by saying that you know we are always producing more than we can consume and we need uh and we are creating more Capital than we can ask as employers so we need the whole world to be open to us so ideas of manifest destiny the Frontier Thesis the open door the Monroe Doctrine all of these ideas Justified U.S expansionism and as I said by the early 20th century

the U.S had actually made this general expansionism of its history very focused on making the dollar the world's money and and one more preliminary point before we look at how the dollar system operated and that is you see uh Michael

discussed monetary imperialism and that's really quite important because you see when you look get ideas last time we mentioned hegemony stability Theory a German stability theory is not really a theory it's really a discourse justifying the Dollar's World role but but and and so it tends to not be

particularly consistent so sometimes you see that hegemony is they talk about hegemony as though it were productive superiority the most competitive country is the leading country of the world and at other times they talk about the country whose currency in the world except but these are two quite different things and it's interesting from one point of view because we have already seen that running the Sterling system actually affected British British the British economy the British productive economy adversely because it

required a financial system that was the opposite of what an expanding a productive economy requires it was the absolute opposite of that and and and so in a certain sense you know and therefore it is not surprising that Britain's monetary imperialism that is to say this goal scoring system coincided with the period when Britain was losing manufacturing superiority rather rapidly to other countries and as we'll discussed probably in the next show when we discuss the last two questions we will show that the United

States attempt to emulate this it's the second phase of it which became Reliant very much on certain types of financialization that also has coincided with the rapid decline of the U.S competitiveness that is to say all the people who are sort of you know talking up the dollar and saying the dollar is naturally the world's money are not just hiding from people the cost the rest of the world pays they are also hiding from you the cost that American workers U.S workers U.S even U.S small business people are paying for this crazy

system so uh and already this monetary imperialism was a sign of expanding multi-polarity because that showed that Britain no longer had productive dominance it could exercise uh a monetary dominance to some extent thanks to its Empire but this was also uh you know this was also limited by time now essentially like I said before the United States left the world with no choice but to accept the world uh the dollar as the world's currency by simply mixing all alternative plans simply saying that if the world could

not come to any multilateral agreement it was not going to cooperate so uh then what we have is that so so we are told however by the hegemony stability Theory people that uh in fact the dollar system functioned perfectly fine up until

1979 and then there was some little local difficulty and the dollars goaling had to be broken and in any case it was a master's degree but nevertheless all the people who talk about uh U.S hegemony tend to think that the post-second world war period up to 1971 was a period of dollar hegemony

and American or U.S hegemony but if we actually look at the reality of the period from 1945 to 1971 we see the opposite what we see is an extremely tumultuous couple of decades and a half so uh essentially the story would be can be compressed into the following um that first of all without an Empire the dollar could not export uh uh Capital to the rest of the world it did a little bit under the Marshall Plan but the Marshall Plan itself is totally hyped up it was not really necessary for European recovery which was largely done

under its own Steam and what's more the Marshall Plan Credit that was given to Europe also came with multiple strings attached including you know uh strings that made this Aid not particularly helpful to Europe but nevertheless the us could not export much Capital so essentially what the U.S started doing was eventually to uh when this period of export of capital was was over essentially it started supplying the world with liquidity by uh uh running deficits so this is the opposite Britain was the Creditor nation of the

world when it were Randall's gold Sterling system and it could do that thanks to her Empire without an Empire the U.S could only run the dollar system by running deficits by becoming increasingly indebted to the world so now in the 1940s actually uh that we had a kind of special period in which the United States thanks to the devastation of the rest of the world's economy and the great boost that the war gave to the U.S economy um the U.S was running huge export Surplus is that because when you are running an export

Surplus the world has to pay you dollars rather than you making dollars available to the rest of the world there was a general condition of dollar shortage uh and and the Marshall Plan was not really able to alleviate this dollar shortage and of course as a consequence uh European economy is rather than opening themselves up to free trade Etc naturally chose to protect themselves as much as possible because they had to manage the relations between their economies and the rest of the world carefully in order to conserve

scarce for an exchange so uh so this was the situation so really the dollar system was there there was no alternative but it wasn't working particularly well either and certainly not contributing to the world that was recovery in fact the key

thing the only proposal of Keynes that actually survived this uh Keynes is uh the u.s's mixing of games this proposal was capital it controls the U.S had to accept that unless European countries practice Capital controls that is to say manage the inflow and outflow of money uh from their

economies and into their economies there would be such a lot of economic Devastation and this could only increase the attractiveness of Communism in Western Europe and this was to be avoided at all costs of the United States accepted Capital controls and capital controls was what made it possible for all these European economies to organize uh their um their recoveries with a lot of State involvement lot of State ownership etc etc but they allowed them to organize this so they did manage to do it and by 1958 they were

sufficiently recovered to be able to finally meet their currencies convertible and of course with convertible currencies of these countries they could also use their each other's currencies in their trade and almost almost overnight what had been a dollar shortage turned into a dollar glut nobody wanted dollars since there were European currencies or far stronger economies that were becoming convertible remember bulk of the growth of the post-second world war period took place actually in the recovering economies so

essentially there was a dollar glut and also around this time you also began to see the first declines post-war declines in U.S exports eventually these declines in exports would become trade deficits Etc but we'll discuss that another time and also around this time the famous Belgian Economist Robert Griffin uh proposed that there was something inherently wrong about supplying the world's a world with liquidity via deficits uh essentially uh and at that time remember these deficits were not due to trade deficits but because

of u.s's uh military spending abroad in the Korean War the later the Vietnam War and so on so he said that these sorts of deficits basically there was a he proposed that there was a dilemma here because the more liquidity you supply wire the deficits the greater the deficits that may mean greater liquidity but the size of the deficit made the dollar less attractive and the trifling dilemma essentially operated throughout this period and essentially the major trading partners of the United States rather than uh accepting dollars they

said no the dollar is convertible into gold so we want gold instead so within a very very short period between 1958 and 1961. the European principally had drained so much gold out of the United States that the United States could no

longer back the dollar with gold on its own so a gold pool had to be created pulling the gold of all the countries involved in order to back the dollar and the countries involved only did so because they thought this would give them a place at the table when eventually this crazy system came

to an end and they could negotiate a better system and even while the United States kept trying to talk you know as though there was no problem saying you know the you know we have lots of assets abroad and so on and so forth there's nothing to worry about we are not living beyond beyond that means nevertheless they may be talking in this way but they were walking in a very different way because they were taking a number of measures we reduce trying to reduce the payment deficits by giving tax by removing tax

incentives for outgoing FBI trying to keep a money within the United States by imposing a tax on uh interest earned elsewhere uh increasing domestic military procurement Etc there's a whole long list I won't go into that but a number of efforts were made in order to curb U.S deficits and essential and and things did not improve and by 1967 they were so bad that the domestic convertibility of the dollar into gold had to be ended in the same year the French also withdrew from the gold pool saying this is simply not making sense

uh the United States kept the game going by basically requiring the rest of the world to not demand gold but eventually by 19 sorry that should say 1971 there was a run on the dollar and the Nixon administration had to end convertibility so if you look at this series of events you would not believe that the dollar was the worst money in any kind of stable fashion so that is the story Michael perhaps you want to add something yeah I want to add a quantitative backing of all of this uh in 1945 the United States had uh its gold reserves

uh had all been flowing to the United States in the 1930s and during the war it would fight capital people were afraid to hold their gold in Europe because they thought Germany uh was going to attack it so most of the gold was in the United States in 1945. uh if the America uh really had uh wanted to create a system of balance uh it would have done uh what you described it would have helped other countries actually invest in development develop what you describe as the nightmare for the United States that other countries would

invest to develop and wouldn't need to be dependent on the United States between 1945 and 1950 the United States raised its gold Holdings from 20 billion to 25 billion or almost 25 billion to 75 percent of the world's monetary

Gold stock was held in the United States and that was what you called the dollar shortage other countries without having enough dollars they were forced to do what England called stop go whenever England would begin to recover it's a business businesses that expand workers would be

employed and they'd have to import brain they'd have to import their food they'd have to import other things the pound sterling would go into deficit and don't have to raise its interest rates in order to borrow the money to finance the deficit to keep the exchange rate of Sterling stable and this Rising interest rate would cause uh to fall back into depression that was stop go which mainly meant stop stop stop uh whenever you begin to become solvent uh so uh the United States was uh everybody was complaining by

1950. the United States solved the problem in a way that nobody had expected the Vietnam War from the time America not I'm sorry the Korean war from the time America entered the Korean war in uh 1950-51 every single year uh its balance of payments moved into chronic deficit that got deeper and deeper until 1971 when it was forced off uh off uh gold the entire balance of payments deficit was equal to each year after year to America's military spending abroad uh when I left Chase Manhattan Bank uh I was employed

by Arthur Anderson to do an analysis of the U.S balance of payments and uh I produced the charts and the statistics they're repeated uh in super imperialism uh to show that the entire deficit was indeed the dollars uh at that time Mr Mac John McNamara uh the head of the uh the defense secretary uh telephoned Arthur Anderson and said if they uh Supply uh my report uh they'd never get another contract from the US government so uh my boss Mr barsanti uh came in and apologized to me and said uh that they they couldn't

publish it so uh but their art Department had made very nice charts and he gave them all to me and I went to uh New York University's business school and I published it all these statistics in a monograph uh summarized in super imperialism uh the Federal Reserve uh then uh wrote thought how how are we going to cope with this they didn't want to attack me obviously so they attacked all the publications of NYU uh uh the business school an overall thing and said well the fact that I found uh the Vietnam Avia uh yeah not by

that time the Vietnam War responsible for the deficit and military spending doesn't give confidence in nyu's editorial uh decision but then one of my students at the new school who I was teaching international finance and trade uh

worked for the Federal Reserve and showed me their internal memos saying yes all of this is true we can't let it get out so all of this discussion about International balance and uh fairness and as if everything was all the uh a balance of payment deficits were International Trade ignore two things they

ignore number one military spending that was the key to the deficit as it actually has been since the 13th century uh that it's war that forces countries into deficit uh that's a war that forces countries to borrow that was why uh uh the Catholic Church the papacy in the 13th century uh legitimized interest-bearing debt to finance uh the wars the Crusades and the wars it was fighting so this is this is a constant uh throughout history it doesn't appear in any of the free trade economic models it's as if governments don't exist and the

other thing that doesn't exist in this uh uh saying that every uh balance of payments equilibrium is all trade they then say and Trey all trade is a result of Labor uh asking for wages and the way to run a deficit is to uh Institute a class who are against labor you want to fight the labor unions you want to lower uh wage levels to enable countries to have achieve balance well what they mean uh is balances obviously the to finance this U.S centered military order because the uh the dollars that uh countries who are accumulating when

they weren't asking for gold were loans to the U.S uh uh treasury by buying treasury bills uh that were financed not only the domestic uh budget deficit that was largely military but also the balance of payments deficit that so the entire stability between a 1951 and 1971 for 20 years was provided by monetary spending as the United States but put military bases all over the rest of the world so what achieved balance was military uh the military deficit not trade adjustment not uh invest in investment adjustment all of this is left

out uh the trade Theory uh does not have room for the gunboats uh and yet if you look at uh the balance of payments for the last 800 years it's all about the gun votes uh that's the uh the amazing thing and what uh we're focusing on is uh the politics that uh to the uh that uh International uh exchange rates and relations are not a function of free market uh Arrangements they're a function of intergovernmental debt not not so much uh private and uh military spending and uh governments uh paying uh their uh uh their foreign

currency by selling off their infrastructure I want to make their own final comment on uh radica says that uh uh stability is achieved by investing uh I said that was the U.S nightmare that nightmare was an imposed was the the iron hand

was the World Bank there's a reason it's always it's usually led by a defense department by military heads the the prime directive of the World Bank is no country should uh compete with major uh uh products that the United States exports Above All Grain the one thing that the World Bank has opposed is other countries growing their own food grain uh from the very beginning it's uh fought

against Land Reform against land redistribution and uh said that other we will make loans for export uh facilities for roads and ports but uh these you can export Plantation crops uh from huge Lata fundia you must not grow your own grain you must depend on the United States that's the free market uh you uh you must not have government investment and yet uh every uh World Bank Mission they have country missions that they report for every single country the head every single mission report says the first thing they need

is domestic currency for Agricultural Extension for marketing for uh seed development for Education uh for all the things that the United States has done under its agricultural adjustment act that Roosevelt imposed that helped American Agricultural productivity in the 30s and 40s grow faster than any industry in world history had grown Farm productivity that's exactly what America looked at is as nightmare if Argentina uh is other Latin American Africa would grow their own grain so the idea of this the dollar dependency was uh

based on the United States using the market to prevent other countries from uh investing to become independent of Reliance on the dollar and on uh products that are exported by the United States primarily oil uh and uh uh grain yeah this is a fascinating Michael and I should say we are probably over an hour so we should we should uh uh stop this uh for today and we will take up the last two questions uh that is to say was there really a Bretton Woods two that is to say it was well things just simply carry on as as normal after

1971. and this will become a Prelude understanding the contradictions of the system after 1971 will help us to understand the current uh possibility of the demise of the dollar uh as as the world's money but before closing let me just say that as part of this story I mean Michael's absolutely right I mean the United States essentially is really afraid of the rest of the world uh developing growing Etc but the fact is it has not been able to prevent it which is one of the fundamental reasons for the current crisis so the United States what it

wants to have and what it can have the difference between the two has grown wider and wider and this is partly why we see that to increasingly desperate military actions of the United States so in the story in the story we have to tell the first the Europeans essentially check out of the dollar system by creating European monetary integration and later on other countries today even the uh oil importing countries the OPEC countries which were for a while persuaded to hold vast quantities of U.S uh currency they are also

checking out the Chinese Russians the Japanese everybody is increasingly very of holding dollars so we this is the story we will have we will tell because essentially and even the IMF and the World Bank yes totally they have been a loyal Servants of the United States in imposing austerity on the rest of the world as much as possible but in the early part by the early 21st century you also see that the rest of the world having been you know bitten several times were now quite shy of the IMF and the IMF and the world bank's loan portfolios actually Rank and remains so until after the 2008 financial crisis so the what the U.S wants and what it can have the distance between these two things as I say we will we will show how this expanded in

our next uh program which will definitely the last one we do on the dollarization and then we will move on to other topics including Michael and I were thinking we would do one on the political and geopolitical economy of the Ukraine uh conflict over Ukraine so thanks very much uh thanks to Paul Graham who is behind the scenes uh recording all this and being our wonderful videographer uh and thanks of course to Ben again for hosting our show uh see you in a couple of weeks bye bye